

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6738

BILL NUMBER: SB 521

NOTE PREPARED: Jan 24, 2003

BILL AMENDED:

SUBJECT: Renaissance Zones.

FIRST AUTHOR: Sen. Long

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X
X

GENERAL
DEDICATED
FEDERAL

IMPACT: State and Local

Summary of Legislation: The bill permits the Enterprise Zone Board to designate areas as Renaissance Zones. The bill provides relief from property taxes, the adjusted gross income tax, the county adjusted gross income tax, the county option income tax, and the county economic development income tax to individuals residing in a Renaissance Zone and businesses located in a Renaissance Zone. The bill also provides that real and personal property located in a Renaissance Zone may be assessed for payment of ad valorem property taxes committed to funding or paying bonded indebtedness or lease rentals in leases in which the original term is for at least five years. The bill requires an Urban Enterprise Association to use the assistance provided by a zone business for capital improvements within the zone.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The bill authorizes the state Enterprise Zone (EZ) Board to designate up to 25 Renaissance Zones statewide between January 1, 2004 and December 31, 2004. These Renaissance Zones would expire 15 years after the date of designation by the EZ Board. The Renaissance Zones would provide temporary tax relief in certain areas to stimulate economic development and job creation. The bill requires the EZ Board to approve a request of a municipality containing an EZ to have part of that EZ designated as a Renaissance Zone. The bill prohibits more than one Renaissance Zone per municipality. However, a Renaissance Zone does not have to have a continuous boundary, and may be comprised of up to six distinct geographical areas known as subzones. The executive of a municipality not containing an EZ (excluding towns in Marion County) may apply to the EZ Board to establish part of the municipality as a Renaissance Zone upon approval by the local legislative body. The EZ Board is prohibited from considering an application submitted after September 30, 2004. The EZ Board would be required to promulgate rules for the approval of Renaissance Zones and to contract with a state university to deliver an annual report to the General Assembly on the effectiveness of each Renaissance Zone. The Indiana Department of Commerce (IDOC) currently provides administrative support to the Board. The IDOC may incur some additional administrative expenses associated with this proposal, however, it is expected that these costs could be

absorbed given the Department's existing budget and resources. The State Board of Tax Commissioners and the Department of Revenue also may incur administrative expenses regarding the provisions of this bill.

Explanation of State Revenues: *Renaissance Zones:* Under the bill, businesses and individuals who are located in Renaissance Zones would be exempt from the state Adjusted Gross Income (AGI) Tax. However, if the Renaissance Zone was formerly an Enterprise Zone (EZ), businesses and individuals would not be able to claim the Enterprise Zone (EZ) Employee Deduction, EZ Employment Expense Deduction, EZ Loan Interest Credit, Neighborhood Assistance Credit, or EZ Investment Cost Credit. An individual must reside in the Renaissance Zone at least 183 days before being eligible for an exemption from the AGI Tax. Businesses that reduce or terminate operations elsewhere within the state in order to relocate in Renaissance Zones would generally be disqualified from any Renaissance Zone tax incentives. In addition, businesses would still be required to collect and remit sales tax on transactions occurring within Renaissance Zones. The estimated revenue loss to the state is indeterminable and dependent on the number, location, and size of the Renaissance Zones which may be designated. There is a **\$10 M** limit on the aggregate amount of state and local tax revenue foregone from exemptions, deductions, and credits provided to Renaissance Zone taxpayers. Nevertheless, the net impact on state taxes is contingent on the sales taxes generated by economic activity within Renaissance Zones and on the extent to which new investment and employment in Renaissance Zones would have occurred in their absence.

Renaissance Zones (and any related tax credits, exemptions or deductions) expire 15 years after being established by the EZ Board. As Renaissance Zones may be designated between January 1, 2004, and December 31, 2004, the state impact of this proposal could potentially begin in FY 2006 and continue through FY 2020. In the last three years of each Renaissance Zone's existence, the amount of any credit, exemption, or deduction allowed to a taxpayer would be reduced as follows:

Phase-Down of Renaissance Zone-Related Tax Incentives		
Two Years Before Final Year	One Year Before Final Year	Final Year
25% reduction	50% reduction	75% reduction

Under the bill, if a municipality containing an EZ applies to the EZ Board to have part of the EZ established as a Renaissance Zone, the Board must approve this request. Businesses and individuals currently receiving EZ-related tax benefits would then be eligible for all Renaissance Zone incentives. However, the bill prohibits taxpayers from claiming both Renaissance Zone and EZ tax incentives. There are currently 24 municipal EZs in Indiana. Renaissance Zones must be larger than three-fourths of a square mile, but less than six square miles in size. If the Renaissance Zone contains a municipally owned parcel larger than 25 acres, the size of the zone may be increased to accommodate this parcel.

The state of Michigan passed similar legislation in 1996 establishing 11 Renaissance Zones, each with an average of 4 subzones and a size of 1.6 square miles. As of December 2002, the Michigan Economic Development Corporation reported that 34 Renaissance Zone designations and modifications were approved by the state. The MEDC also reports that, as of December 2002, 241 economic development projects have been created in Renaissance Zones since they were established on January 1, 1997. These projects have resulted in more than 6,300 new jobs and with combined private investment of more than \$1.7 B. The Michigan Department of Treasury estimates that the state and local revenue loss in FY 2002 associated with Renaissance Zones totaled about \$22.3 M. The Renaissance Zones are estimated to have resulted in FY 2002

revenue losses totaling \$3.7 M from the state Single Business Tax, \$300,000 from the state Individual Income Tax, and \$18.3 M from local property taxes and other local taxes.

Urban Enterprise Associations: The bill requires Urban Enterprise Associations (UEAs) to use contributions from EZ businesses only for capital improvements such as: (1) road and street maintenance or repair; (2) sidewalk construction, maintenance, or repair; (3) sewer construction, maintenance, or repair; (4) storm sewer construction, maintenance, or repair; or (5) any other project to improve the physical environment of the EZ. Some past UEA activities not directly related to capital improvements in EZs have included operating day-care centers, granting scholarships, and holding seminars on various topics. Under current law, each EZ business receiving incentives must assist the UEA in an amount determined by the legislative body of the municipality containing the EZ. This percentage varies with each EZ, but ranges between 20% and 35% of the total tax incentives received.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under the bill, businesses and individuals who are located in Renaissance Zones would be exempt from local real and personal property taxes and local option income taxes (CAGIT, COIT, and/or CEDIT). However, businesses and individuals would not be exempt from property taxes resulting from local bonded indebtedness or lease rentals with an original term of at least five years. If the Renaissance Zone was formerly an Enterprise Zone (EZ), businesses would not be able to claim the Enterprise Zone (EZ) Inventory Credit. An individual must reside in the Renaissance Zone at least 183 days before they are eligible for an exemption from any local option income taxes. Businesses that reduce or terminate operations elsewhere within the state in order to relocate in Renaissance Zones would generally be disqualified from any Renaissance Zone tax incentives.

Renaissance Zones would affect local option income taxes (CAGIT, COIT, and/or CEDIT) and real and personal property assessed valuation in local units comprising the Zones. This impact would last until the Zone expires 15 years from the Zone's date of designation. Also, there is a \$10 M limit on the aggregate amount of state and local tax revenue foregone from exemptions, deductions, and credits provided to Renaissance Zone taxpayers. The impact on local option income taxes would be diminished to the extent that employees: (1) don't reside within the Renaissance Zone; or (2) are already entitled to the EZ Employee Tax Deduction under current law where EZs are replaced by Renaissance Zones. Real and personal property in Renaissance Zones would be taken off the property tax rolls. This could lead to a shift of the property tax burden and could possibly increase some tax rates. Nevertheless, the net impact on local taxes is contingent on the degree to which new investment and employment in Renaissance Zones would have occurred in their absence.

State Agencies Affected: Indiana Department of Commerce, Indiana Enterprise Zone Board, State Budget Agency, Department of Local Government Finance, Department of State Revenue.

Local Agencies Affected: Local units, Urban Enterprise Associations.

Information Sources: *Executive Budget Tax Expenditure Appendix, FY 2003*, Michigan Department of Treasury. *Press Release reporting latest Renaissance Zone activity*, Michigan Economic Development Corporation, Jennifer Kopp-Owens, (517) 335-4590.

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